

AMCON DISTRIBUTING CO

Form 10-Q

July 20, 2010

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2010**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934**

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 1-15589**

(Exact name of registrant as specified in its charter)

**Delaware**

**47-0702918**

(State or other jurisdiction  
of incorporation or organization)

(I.R.S. Employer  
Identification No.)

**7405 Irvington Road, Omaha NE**

**68122**

(Address of principal executive offices)

(Zip code)

**Registrant's telephone number, including area code (402) 331-3727**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting  
company

(Do not check if a smaller  
reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes  No

The Registrant had 577,266 shares of its \$.01 par value common stock outstanding as of July 12, 2010.



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**AMCON Distributing Company and Subsidiaries**  
**Condensed Consolidated Balance Sheets**  
**June 30, 2010 and September 30, 2009**

|                                                                                                                                                  | <b>June<br/>2010<br/>(Unaudited)</b> | <b>September<br/>2009</b> |
|--------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|---------------------------|
| <b>ASSETS</b>                                                                                                                                    |                                      |                           |
| Current assets:                                                                                                                                  |                                      |                           |
| Cash                                                                                                                                             | \$ 365,362                           | \$ 309,914                |
| Accounts receivable, less allowance for doubtful accounts of \$1.7 million and \$0.9 million at June 2010 and September 2009                     | 29,967,877                           | 28,393,198                |
| Inventories, net                                                                                                                                 | 41,308,413                           | 34,486,027                |
| Deferred income taxes                                                                                                                            | 1,967,233                            | 1,701,568                 |
| Prepaid and other current assets                                                                                                                 | 4,554,137                            | 1,728,576                 |
| Total current assets                                                                                                                             | 78,163,022                           | 66,619,283                |
| Property and equipment, net                                                                                                                      | 11,780,603                           | 11,256,627                |
| Goodwill                                                                                                                                         | 6,149,168                            | 5,848,808                 |
| Other intangible assets                                                                                                                          | 4,858,269                            | 3,373,269                 |
| Other assets                                                                                                                                     | 1,062,245                            | 1,026,395                 |
|                                                                                                                                                  | \$ 102,013,307                       | \$ 88,124,382             |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>                                                                                                       |                                      |                           |
| Current liabilities:                                                                                                                             |                                      |                           |
| Accounts payable                                                                                                                                 | \$ 18,647,475                        | \$ 15,222,689             |
| Accrued expenses                                                                                                                                 | 6,605,525                            | 6,768,924                 |
| Accrued wages, salaries and bonuses                                                                                                              | 3,045,321                            | 3,257,832                 |
| Income taxes payable                                                                                                                             | 2,527,497                            | 3,984,258                 |
| Current maturities of credit facility                                                                                                            |                                      | 177,867                   |
| Current maturities of long-term debt                                                                                                             | 933,256                              | 1,470,445                 |
| Total current liabilities                                                                                                                        | 31,759,074                           | 30,882,015                |
| Credit facility, less current maturities                                                                                                         | 28,480,212                           | 22,655,861                |
| Deferred income taxes                                                                                                                            | 1,141,803                            | 1,256,713                 |
| Long-term debt, less current maturities                                                                                                          | 5,435,769                            | 5,066,185                 |
| Other long-term liabilities                                                                                                                      | 562,575                              |                           |
| Series A cumulative, convertible preferred stock, \$.01 par value 100,000 shares authorized and issued, liquidation preference \$25.00 per share | 2,500,000                            | 2,500,000                 |
| Series B cumulative, convertible preferred stock, \$.01 par value 80,000 shares authorized and issued, liquidation preference \$25.00 per share  | 2,000,000                            | 2,000,000                 |

Shareholders' equity:

|                                                                                                                                                      |                |               |
|------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|---------------|
| Preferred stock, \$0.01 par, 1,000,000 shares authorized, 180,000 shares outstanding and issued in Series A and B referred to above                  |                |               |
| Common stock, \$.01 par value, 3,000,000 shares authorized, 577,266 shares outstanding at June 2010 and 573,232 shares outstanding at September 2009 | 5,773          | 5,732         |
| Additional paid-in capital                                                                                                                           | 8,250,974      | 7,617,494     |
| Retained earnings                                                                                                                                    | 21,877,127     | 16,140,382    |
| Total shareholders' equity                                                                                                                           | 30,133,874     | 23,763,608    |
|                                                                                                                                                      | \$ 102,013,307 | \$ 88,124,382 |

The accompanying notes are an integral part of these condensed consolidated unaudited financial statements.

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**AMCON Distributing Company and Subsidiaries**  
**Condensed Consolidated Unaudited Statements of Operations**  
**for the three and nine months ended June 30, 2010 and 2009**

|                                                                                                                                     | For the three months<br>ended June |                | For the nine months<br>ended June |                |
|-------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|----------------|-----------------------------------|----------------|
|                                                                                                                                     | 2010                               | 2009           | 2010                              | 2009           |
| Sales (including excise taxes of \$87.9 million and \$77.4 million, and \$246.3 million and \$171.0 million, respectively)          | \$ 267,062,440                     | \$ 242,817,927 | \$ 741,502,607                    | \$ 655,637,536 |
| Cost of sales                                                                                                                       | 247,932,676                        | 225,753,469    | 688,204,656                       | 605,481,395    |
| Gross profit                                                                                                                        | 19,129,764                         | 17,064,458     | 53,297,951                        | 50,156,141     |
| Selling, general and administrative expenses                                                                                        | 14,070,483                         | 12,800,612     | 41,215,024                        | 38,625,335     |
| Depreciation and amortization                                                                                                       | 440,466                            | 273,650        | 1,243,307                         | 884,972        |
|                                                                                                                                     | 14,510,949                         | 13,074,262     | 42,458,331                        | 39,510,307     |
| Operating income                                                                                                                    | 4,618,815                          | 3,990,196      | 10,839,620                        | 10,645,834     |
| Other expense (income):                                                                                                             |                                    |                |                                   |                |
| Interest expense                                                                                                                    | 370,873                            | 368,048        | 1,144,543                         | 1,265,834      |
| Other (income), net                                                                                                                 | (32,758)                           | (43,600)       | (69,184)                          | (84,143)       |
|                                                                                                                                     | 338,115                            | 324,448        | 1,075,359                         | 1,181,691      |
| Income from continuing operations before income tax                                                                                 | 4,280,700                          | 3,665,748      | 9,764,261                         | 9,464,143      |
| Income tax expense                                                                                                                  | 1,532,000                          | 1,411,000      | 3,495,000                         | 3,614,000      |
| Income from continuing operations                                                                                                   | 2,748,700                          | 2,254,748      | 6,269,261                         | 5,850,143      |
| Discontinued operations (Note 2)                                                                                                    |                                    |                |                                   |                |
| Gain on asset disposal and debt settlement, net of income tax expense of \$2.7 million                                              |                                    | 4,666,264      |                                   | 4,666,264      |
| Income (loss) from discontinued operations, net of income tax expense (benefit) of \$0.01 million and (\$0.1) million, respectively |                                    | 13,105         |                                   | (186,370)      |
| Income on discontinued operations                                                                                                   |                                    | 4,679,369      |                                   | 4,479,894      |
| Net income                                                                                                                          | 2,748,700                          | 6,934,117      | 6,269,261                         | 10,330,037     |
| Preferred stock dividend requirements                                                                                               | (74,052)                           | (74,052)       | (222,158)                         | (493,786)      |



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|                                                                 |              |              |              |              |
|-----------------------------------------------------------------|--------------|--------------|--------------|--------------|
| Net income available to common shareholders                     | \$ 2,674,648 | \$ 6,860,065 | \$ 6,047,103 | \$ 9,836,251 |
| Basic earnings per share available to common shareholders:      |              |              |              |              |
| Continuing operations                                           | \$ 4.72      | \$ 3.97      | \$ 10.73     | \$ 9.78      |
| Discontinued operations                                         |              | 8.52         |              | 8.17         |
| Net basic earnings per share available to common shareholders   | \$ 4.72      | \$ 12.49     | \$ 10.73     | \$ 17.95     |
| Diluted earnings per share available to common shareholders:    |              |              |              |              |
| Continuing operations                                           | \$ 3.67      | \$ 3.11      | \$ 8.39      | \$ 7.37      |
| Discontinued operations                                         |              | 6.46         |              | 5.65         |
| Net diluted earnings per share available to common shareholders | \$ 3.67      | \$ 9.57      | \$ 8.39      | \$ 13.02     |
| Weighted average shares outstanding:                            |              |              |              |              |
| Basic                                                           | 566,224      | 549,397      | 563,505      | 547,859      |
| Diluted                                                         | 749,350      | 724,833      | 747,035      | 793,610      |

The accompanying notes are an integral part of these condensed consolidated unaudited financial statements.

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**AMCON Distributing Company and Subsidiaries**  
**Condensed Consolidated Unaudited Statements of Cash Flows**  
**for the nine months ended June 30, 2010 and 2009**

|                                                                                                             | 2010         | 2009          |
|-------------------------------------------------------------------------------------------------------------|--------------|---------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                                                |              |               |
| Net income                                                                                                  | \$ 6,269,261 | \$ 10,330,037 |
| Deduct: Income from discontinued operations, net of tax                                                     |              | 4,479,894     |
| Income from continuing operations                                                                           | 6,269,261    | 5,850,143     |
| Adjustments to reconcile net income from continuing operations to net cash flows from operating activities: |              |               |
| Depreciation                                                                                                | 1,043,186    | 884,972       |
| Amortization                                                                                                | 200,121      |               |
| (Gain) loss on sale of property and equipment                                                               | (31,843)     | 26,468        |
| Stock based compensation                                                                                    | 376,422      | 398,700       |
| Net excess tax (benefit) deficiency on equity-based awards                                                  | (130,126)    | 16,592        |
| Deferred income taxes                                                                                       | (380,575)    | 893,851       |
| Provision for losses on doubtful accounts                                                                   | 750,489      | 489,038       |
| Provision for losses on inventory obsolescence                                                              | 82,778       | 331,319       |
| Other                                                                                                       | 77,094       |               |
| Changes in assets and liabilities:                                                                          |              |               |
| Accounts receivable                                                                                         | (2,325,168)  | (1,797,340)   |
| Inventories                                                                                                 | (4,923,666)  | 1,714,017     |
| Prepaid and other current assets                                                                            | (2,830,201)  | 312,759       |
| Other assets                                                                                                | (35,850)     | 59,277        |
| Accounts payable                                                                                            | 3,388,920    | (365,711)     |
| Accrued expenses and accrued wages, salaries and bonuses                                                    | (375,910)    | 2,625,568     |
| Income tax payable                                                                                          | (1,326,635)  | 4,713,677     |
| Net cash flows from operating activities continuing operations                                              | (171,703)    | 16,153,330    |
| Net cash flows from operating activities discontinued operations                                            |              | (2,673,712)   |
| Net cash flows from operating activities                                                                    | (171,703)    | 13,479,618    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                                                |              |               |
| Purchases of property and equipment                                                                         | (1,423,912)  | (784,221)     |
| Proceeds from sales of property and equipment                                                               | 62,406       | 102,406       |
| Acquisition                                                                                                 | (3,099,836)  |               |
| Net cash flows from investing activities                                                                    | (4,461,342)  | (681,815)     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                                                |              |               |
| Net borrowings (payments) on bank credit agreements                                                         | 5,646,484    | (8,955,236)   |
| Principal payments on long-term debt                                                                        | (682,574)    | (604,975)     |
| Proceeds from exercise of stock options                                                                     | 126,973      |               |
| Net excess tax (benefit) deficiency on equity-based awards                                                  | 130,126      | (16,592)      |

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|                                                                  |            |              |
|------------------------------------------------------------------|------------|--------------|
| Redemption of Series C convertible preferred stock               |            | (2,000,000)  |
| Dividends paid on convertible preferred stock                    | (222,158)  | (272,158)    |
| Dividends on common stock                                        | (310,358)  | (171,119)    |
| Net cash flows from financing activities continuing operations   | 4,688,493  | (12,020,080) |
| Net cash flows from financing activities discontinued operations |            | (825,000)    |
| Net cash flows from financing activities                         | 4,688,493  | (12,845,080) |
| Net change in cash                                               | 55,448     | (47,277)     |
| Cash, beginning of period                                        | 309,914    | 457,681      |
| Cash, end of period                                              | \$ 365,362 | \$ 410,404   |

The accompanying notes are an integral part of these condensed consolidated unaudited financial statements.

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|                                                                                                             | <b>2010</b>  | <b>2009</b>  |
|-------------------------------------------------------------------------------------------------------------|--------------|--------------|
| Supplemental disclosure of cash flow information:                                                           |              |              |
| Cash paid during the period for interest                                                                    | \$ 1,141,934 | \$ 1,347,690 |
| Cash paid during the period for income taxes                                                                | 5,202,208    | 612,473      |
| Supplemental disclosure of non-cash information:                                                            |              |              |
| Equipment acquisitions classified as accounts payable                                                       | 35,866       | 108,546      |
| Constructive dividends on Series A, B, and C Convertible Preferred Stock                                    |              | 221,628      |
| Acquisition of equipment through capital leases                                                             | 14,969       | 12,333       |
| Business acquisition (see Note 2):                                                                          |              |              |
| Inventory                                                                                                   | 1,981,498    |              |
| Property and equipment                                                                                      | 122,978      |              |
| Customer relationships intangible asset                                                                     | 1,620,000    |              |
| Goodwill                                                                                                    | 300,360      |              |
| Note payable                                                                                                | 500,000      |              |
| Contingent consideration                                                                                    | 425,000      |              |
| TSI disposition – discontinued operations                                                                   |              |              |
| Property and equipment, net                                                                                 |              | (2,032,047)  |
| Accrued expenses                                                                                            |              | (925,452)    |
| Long-term debt                                                                                              |              | (6,945,548)  |
| Deferred gain on CPH Settlement                                                                             |              | (1,542,312)  |
| The accompanying notes are an integral part of these condensed consolidated unaudited financial statements. |              |              |

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**AMCON Distributing Company and Subsidiaries**

**Notes to Condensed Consolidated Unaudited Financial Statements**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION**

AMCON Distributing Company and Subsidiaries ( AMCON or the Company ) operate two business segments:

Our wholesale distribution segment ( Wholesale Segment ) distributes consumer products in the Central and Rocky Mountain regions of the United States.

Our retail health food segment ( Retail Segment ) operates fourteen health food retail stores located throughout the Midwest and Florida.

**WHOLESALE SEGMENT**

Our Wholesale Segment serves approximately 4,200 retail outlets including convenience stores, grocery stores, liquor stores, drug stores, and tobacco shops. In October 2009, Convenience Store News ranked our Wholesale Segment as the eighth (8th) largest convenience store distributor in the United States based on annual sales.

Our Wholesale Segment distributes approximately 14,000 different consumer products, including cigarettes and tobacco products, candy and other confectionery, beverages, groceries, paper products, health and beauty care products, frozen and chilled products and institutional food service products.

**RETAIL SEGMENT**

The Company's retail health food stores, which are operated as Chamberlin's Market & Café and Akin's Natural Foods Market, carry over 30,000 different national and regionally branded and private label products. These products include high-quality natural, organic, and specialty foods consisting of produce, baked goods, frozen foods, nutritional supplements, personal care items, and general merchandise. Chamberlin's, which was first established in 1935, operates six stores in and around Orlando, Florida. Akin's, which was also established in 1935, has a total of eight locations in Oklahoma, Nebraska, Missouri, and Kansas.

**FINANCIAL STATEMENTS**

The Company's fiscal year ends on September 30. The results for the interim period included with this Quarterly Report may not be indicative of the results which could be expected for the entire fiscal year. All significant intercompany transactions and balances have been eliminated in consolidation. Certain information and footnote disclosures normally included in our annual financial statements prepared in accordance with generally accepted accounting principles ( GAAP ) have been condensed or omitted. In the opinion of management, the accompanying condensed consolidated unaudited financial statements ( financial statements ) contain all adjustments necessary to fairly present the financial information included herein, such as adjustments consisting of normal recurring items. The Company believes that although the disclosures contained herein are adequate to prevent the information presented from being misleading, these financial statements should be read in conjunction with the Company's annual audited consolidated financial statements for the fiscal year ended September 30, 2009, as filed with the Securities and Exchange Commission on Form 10-K. For purposes of this report, unless the context indicates otherwise, all references to we , us , our , the Company , and AMCON shall mean AMCON Distributing Company and its subsidiaries. Additionally, the three month fiscal periods ended June 30, 2010 and June 30, 2009 have been referred to throughout this quarterly report as Q3 2010 and Q3 2009, respectively. The fiscal balance sheet dates as of June 30, 2010, June 30, 2009, and September 30, 2009 have been referred to as June 2010, June 2009, and September 2009, respectively.

**Table of Contents****Recently Issued Accounting Pronouncements**

The Company is currently evaluating the impact of implementing the following new accounting standards:

FASB ASC 860 ( *Accounting for Transfers of Financial Assets* ) requires additional disclosures regarding the transfer and derecognition of financial assets and eliminates the concept of qualifying special-purpose entities. This pronouncement is effective for fiscal years beginning after November 15, 2009 (fiscal 2011 for the Company).

FASB ASC 810 ( *Amendments to FASB Interpretation: Consolidation of Variable Interest Entities* ) eliminates the quantitative approach previously required for determining the primary beneficiary of a variable interest entity and requires ongoing qualitative reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. Additionally, this pronouncement requires additional disclosures about an enterprise's involvement in variable interest entities and is effective for fiscal periods beginning after November 15, 2009 (fiscal 2011 for the Company).

**2. ACQUISITION AND DISPOSITIONS****ACQUISITION**

On October 30, 2009, the Company acquired the convenience store distribution assets of Discount Distributors from its parent Harps Food Stores, Inc. ( Harps ). Discount Distributors was a wholesale distributor to convenience stores in Arkansas, Oklahoma, and Missouri with annual sales of approximately \$59.8 million. The Company paid \$3.1 million cash, issued a \$0.5 million note payable in quarterly installments over two years, and could pay an additional \$1.0 million in contingent consideration for certain fixed assets, inventory, and customer lists of Discount Distributors. The contingent consideration is based on achieving predetermined two-year revenue targets. This transaction was funded through the Company's existing credit facility. No significant liabilities were assumed in connection with the transaction and the costs incurred to effect the acquisition were not significant and were expensed as incurred. The acquisition expands the Company's strategic footprint in the southern portion of the United States and enhances our ability to service customers in that region.

The following table summarizes the consideration paid for the acquired assets and their related acquisition date fair values. The fair value of the assets acquired have been measured in accordance with ASC 805 Business Combinations. In valuing identifiable intangible assets, the Company has estimated the fair value using the discounted cash flows methodology. The purchase price allocation reflects various preliminary estimates and analyses and is subject to change during the measurement period (generally one year from the acquisition date). The acquired assets will be reported as a component of our wholesale distribution segment.

**Total Consideration**

|                                         | <b>Amount</b><br><b>(in millions)</b> |
|-----------------------------------------|---------------------------------------|
| Cash                                    | \$ 3.1                                |
| Note payable                            | 0.5                                   |
| Fair value of contingent consideration  | 0.4                                   |
| Fair value of consideration transferred | \$ 4.0                                |

**Recognized amounts of identifiable assets acquired**

|                                 | <b>Amount</b><br><b>(in millions)</b> | <b>Weighted</b><br><b>Average</b><br><b>Amortization</b><br><b>Period</b> |
|---------------------------------|---------------------------------------|---------------------------------------------------------------------------|
| Inventory                       | \$ 2.0                                |                                                                           |
| Property and equipment          | 0.1                                   | 5 years                                                                   |
| Identifiable intangible assets: |                                       |                                                                           |

|                                        |        |         |
|----------------------------------------|--------|---------|
| Customer relationships                 | 1.6    | 8 years |
| Total identifiable net assets          | 3.7    |         |
| Goodwill                               | 0.3    |         |
| Total identifiable assets and goodwill | \$ 4.0 |         |

The Company has estimated that the undiscounted payments required under the contingent consideration arrangement will approximate \$0.7 million (\$0.4 million fair value). The \$0.3 million of goodwill arising from the acquisition primarily represents synergies and economies of scale generated through reductions in selling, general, and administrative expenses. This goodwill has been assigned to the Company's Wholesale Segment and is expected to be deductible for tax purposes. No measurement adjustments related to this transaction were recorded during Q3 2010.

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The following table sets forth the unaudited actual revenue and earnings included in the Company's statement of operations related to the acquisition and the pro forma revenue and earnings of the combined entity had the acquisition occurred as of the beginning of the Company's prior fiscal year. These pro forma amounts do not purport to be indicative of the actual results that would have been obtained had the acquisition occurred at that time.

| (In millions)                             | Three months ended |          | Nine months ended |         |
|-------------------------------------------|--------------------|----------|-------------------|---------|
|                                           | June               |          | June              |         |
|                                           | 2010               | 2009     | 2010              | 2009    |
| Revenue Actual Results                    | \$ 16.1            | \$       | \$ 38.3           | \$      |
| Revenue Supplemental pro forma results    | \$ 16.1            | \$ 14.9  | \$ 43.3           | \$ 39.4 |
| Net Income Actual Results                 | \$ 0.1             | \$       | \$ 0.3            | \$      |
| Net Income Supplemental pro forma results | \$ 0.1             | \$ (0.1) | \$ 0.3            | \$ 0.2  |

**DISPOSITION DISCONTINUED OPERATIONS**

In Q3 2009 the Company completed a transaction in which it disposed of assets held by Trinity Springs, Inc. (TSI), a wholly owned subsidiary of the Company, and completed a related debt settlement. The income from discontinued operations as summarized below primarily relates to the gain on this transaction.

|                                            | Three months ended |           | Nine months ended |           |
|--------------------------------------------|--------------------|-----------|-------------------|-----------|
|                                            | June               |           | June              |           |
|                                            | 2010               | 2009      | 2010              | 2009      |
| Operating income (loss)                    | \$                 | \$ 20,105 | \$                | (65,458)  |
| Interest expense                           |                    |           |                   | (230,012) |
| Gain on asset disposal and debt settlement |                    | 7,381,264 |                   | 7,381,264 |
| Income tax expense                         |                    | 2,722,000 |                   | 2,606,000 |
| Income from discontinued operations        |                    | 4,679,369 |                   | 4,479,894 |

**3. CONVERTIBLE PREFERRED STOCK:**

The Company had two series of convertible preferred stock outstanding at June 2010 as identified in the following table:

|                                                   | Series A      | Series B        |
|---------------------------------------------------|---------------|-----------------|
| Date of issuance:                                 | June 17, 2004 | October 8, 2004 |
| Optionally redeemable beginning                   | June 18, 2006 | October 9, 2006 |
| Par value (gross proceeds):                       | \$ 2,500,000  | \$ 2,000,000    |
| Number of shares:                                 | 100,000       | 80,000          |
| Liquidation preference per share:                 | \$ 25.00      | \$ 25.00        |
| Conversion price per share:                       | \$ 30.31      | \$ 24.65        |
| Number of common shares in which to be converted: | 82,481        | 81,136          |
| Dividend rate:                                    | 6.785%        | 6.37%           |

The Series A Convertible Preferred Stock (Series A) and Series B Convertible Preferred Stock (Series B), (collectively, the Preferred Stock), are convertible at any time by the holders into a number of shares of AMCON common stock equal to the number of preferred shares being converted multiplied by a fraction, which is equal to \$25.00 divided by the conversion price. The conversion prices for the Preferred Stock are subject to customary adjustments in the event of stock splits, stock dividends, and certain other distributions on the Common Stock. Cumulative dividends for the Preferred Stock are payable in arrears, when, and if declared by the Board of Directors, on March 31, June 30, September 30 and December 31 of each year.

In the event of a liquidation of the Company, the holders of the Preferred Stock are entitled to receive the liquidation preference plus any accrued and unpaid dividends prior to the distribution of any amount to the holders of the Common Stock.





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The shares of Preferred Stock are optionally redeemable by the Company beginning on various dates, as listed in the above table, at redemption prices equal to 112% of the liquidation preference. The redemption prices decrease 1% annually thereafter until the redemption price equals the liquidation preference, after which date it remains the liquidation preference. The Preferred Stock is redeemable at the liquidation value and at the option of the holder. The Series A Preferred Stock is owned by Mr. Chris Atayan, AMCON's Chief Executive Officer and Chairman of the Board. The Series B Preferred Stock is owned by an institutional investor which has elected Mr. Atayan, pursuant to the voting rights in the Certificate of Designation creating the Series B, as its representative on our Board of Directors.

**4. INVENTORIES**

Inventories consisted of finished goods at June 2010 and September 2009 and are stated at the lower of cost, determined on a first in first out, or FIFO basis, or market. The Wholesale Segment and Retail Segment inventories consist of products purchased in bulk quantities to be redistributed to the Company's customers or sold at retail. Finished goods include total reserves of approximately \$1.0 million at June 2010 and \$0.9 million at September 2009. These reserves include the Company's obsolescence allowance, which reflects estimated unsaleable or non-refundable inventory based on an evaluation of slow moving and discontinued products.

**5. GOODWILL AND OTHER INTANGIBLE ASSETS**

Goodwill by reporting segment of the Company consisted of the following:

|                   | <b>June<br/>2010</b> | <b>September<br/>2009</b> |
|-------------------|----------------------|---------------------------|
| Wholesale Segment | \$ 4,236,291         | \$ 3,935,931              |
| Retail Segment    | 1,912,877            | 1,912,877                 |
|                   | <b>\$ 6,149,168</b>  | <b>\$ 5,848,808</b>       |

Other intangible assets of the Company consisted of the following:

|                                                                     | <b>June<br/>2010</b> | <b>September<br/>2009</b> |
|---------------------------------------------------------------------|----------------------|---------------------------|
| Trademarks and tradenames                                           | \$ 3,373,269         | \$ 3,373,269              |
| Customer relationships (less accumulated amortization of \$135,000) | 1,485,000            |                           |
|                                                                     | <b>\$ 4,858,269</b>  | <b>\$ 3,373,269</b>       |

Goodwill, trademarks and tradenames are considered to have indefinite useful lives and therefore no amortization has been taken on these assets. The Company performs annual impairment testing of goodwill and other intangible assets during the fourth fiscal quarter of each year.

At June 2010, intangible assets considered to have finite lives represented acquired customer relationships. These customer relationships are being amortized over eight years. Amortization expense related to these assets totaled \$50,625 and \$135,000, respectively, for the three and nine month periods ended June 2010. The Company had no amortization expense related to intangible assets during the comparable prior year periods. Amortization expense for customer relationships for the periods subsequent to June 2010 is as follows:

|                        | <b>Fiscal<br/>2010/1/</b> | <b>Fiscal<br/>2011</b> | <b>Fiscal<br/>2012</b> | <b>Fiscal<br/>2013</b> | <b>Thereafter</b> |
|------------------------|---------------------------|------------------------|------------------------|------------------------|-------------------|
| Customer relationships | 50,625                    | 202,500                | 202,500                | 202,500                | 826,875           |

/1/ Represents  
amortization for

the remaining  
three months of  
Fiscal 2010.

**6. DIVIDENDS:**

On April 30, 2010, the Company declared a cash dividend of \$0.18 per common share payable on June 1, 2010 to shareholders of record as of May 11, 2010. Cash dividends paid to common shareholders for the three and nine months ended June 2010 totaled \$103,599 and \$310,358, respectively.

**Table of Contents****7. EARNINGS PER SHARE**

Basic earnings per share available to common shareholders is calculated by dividing income from continuing operations less preferred stock dividend requirements and income from discontinued operations by the weighted average common shares outstanding for each period. Diluted earnings per share available to common shareholders is calculated by dividing income from continuing operations less preferred stock dividend requirements (when anti-dilutive) and income from discontinued operations by the sum of the weighted average common shares outstanding and the weighted average dilutive options, using the treasury stock method.

There were no anti-dilutive stock options and potential common stock options at June 2010. Stock options and potential common stock outstanding at June 2009 that were anti-dilutive were not included in the computations of diluted earnings per share. Such potential common shares totaled 917 and 8,878 for the three and nine months ended June 2009. The average exercise price of anti-dilutive options and potential common stock was \$45.68 and \$32.32 for the three and nine months ended June 2009.

|                                                                                                                                                                              | <b>For the three months ended June</b> |                |              |                |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|----------------|--------------|----------------|
|                                                                                                                                                                              | <b>2010</b>                            |                | <b>2009</b>  |                |
|                                                                                                                                                                              | <b>Basic</b>                           | <b>Diluted</b> | <b>Basic</b> | <b>Diluted</b> |
| Weighted average common shares outstanding                                                                                                                                   | 566,224                                | 566,224        | 549,397      | 549,397        |
| Weighted average of net additional shares outstanding assuming dilutive options exercised and proceeds used to purchase treasury stock and conversion of preferred stock /1/ |                                        | 183,126        |              | 175,436        |
| Weighted average number of shares outstanding                                                                                                                                | 566,224                                | 749,350        | 549,397      | 724,833        |
| Income from continuing operations                                                                                                                                            | \$ 2,748,700                           | \$ 2,748,700   | \$ 2,254,748 | \$ 2,254,748   |
| Deduct: convertible preferred stock dividends /2/                                                                                                                            | (74,052)                               |                | (74,052)     |                |
|                                                                                                                                                                              | 2,674,648                              | 2,748,700      | 2,180,696    | 2,254,748      |
| Income from discontinued operations                                                                                                                                          | \$                                     | \$             | \$ 4,679,369 | \$ 4,679,369   |
| Net income available to common shareholders                                                                                                                                  | \$ 2,674,648                           | \$ 2,748,700   | \$ 6,860,065 | \$ 6,934,117   |
| Income per share from continuing operations                                                                                                                                  | \$ 4.72                                | \$ 3.67        | \$ 3.97      | \$ 3.11        |
| Income per share from discontinued operations                                                                                                                                | \$                                     | \$             | \$ 8.52      | \$ 6.46        |
| Net earnings per share available to common shareholders                                                                                                                      | \$ 4.72                                | \$ 3.67        | \$ 12.49     | \$ 9.57        |

/1/ Diluted earnings per share calculation includes all stock options, convertible preferred stock, and restricted

stock deemed to be dilutive.

/2/ Diluted earnings per share calculation excludes dividends for convertible preferred stock deemed to be dilutive, as those amounts are assumed to have been converted to common stock of the Company.

|                                                                                                                                                                              | For the nine months ended June |              |              |               |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|--------------|--------------|---------------|
|                                                                                                                                                                              | 2010                           |              | 2009         |               |
|                                                                                                                                                                              | Basic                          | Diluted      | Basic        | Diluted       |
| Weighted average common shares outstanding                                                                                                                                   | 563,505                        | 563,505      | 547,859      | 547,859       |
| Weighted average of net additional shares outstanding assuming dilutive options exercised and proceeds used to purchase treasury stock and conversion of preferred stock /1/ |                                | 183,530      |              | 245,751       |
| Weighted average number of shares outstanding                                                                                                                                | 563,505                        | 747,035      | 547,859      | 793,610       |
| Income from continuing operations                                                                                                                                            | \$ 6,269,261                   | \$ 6,269,261 | \$ 5,850,143 | \$ 5,850,143  |
| Deduct: convertible preferred stock dividends /2/                                                                                                                            | (222,158)                      |              | (493,786)    |               |
|                                                                                                                                                                              | 6,047,103                      | 6,269,261    | 5,356,357    | 5,850,143     |
| Income from discontinued operations                                                                                                                                          | \$                             | \$           | \$ 4,479,894 | \$ 4,479,894  |
| Net income available to common shareholders                                                                                                                                  | \$ 6,047,103                   | \$ 6,269,261 | \$ 9,836,251 | \$ 10,330,037 |
| Income per share from continuing operations                                                                                                                                  | \$ 10.73                       | \$ 8.39      | \$ 9.78      | \$ 7.37       |
| Income per share from discontinued operations                                                                                                                                | \$                             | \$           | \$ 8.17      | \$ 5.65       |
| Net earnings per share available to common shareholders                                                                                                                      | \$ 10.73                       | \$ 8.39      | \$ 17.95     | \$ 13.02      |

/1/ Diluted earnings per share calculation includes all

stock options,  
convertible  
preferred stock,  
and restricted  
stock deemed to  
be dilutive.

/2/ Diluted earnings  
per share  
calculation  
excludes  
dividends for  
convertible  
preferred stock  
deemed to be  
dilutive, as  
those amounts  
are assumed to  
have been  
converted to  
common stock  
of the Company.

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**8. DEBT**

The Company has a credit agreement, (the Facility ) with Bank of America which includes the following significant terms:

A January 1, 2012 maturity date and a \$55.0 million revolving credit limit.

The Facility bears interest at either the bank's prime rate or at LIBOR plus 250 basis points, at the election of the Company.

The Facility provides for an additional \$5.0 million of credit advances available for certain inventory purchases. These advances bear interest at the bank's prime rate plus one-quarter of one-percent (1/4%) per annum and are payable within 45 days of each advance.

Lending limits subject to accounts receivable and inventory limitations.

An unused commitment fee equal to one-quarter of one percent (1/4%) per annum on the difference between the maximum loan limit and average monthly borrowings.

Secured by collateral including all of the Company's equipment, intangibles, inventories, and accounts receivable. Provides that the Company may not pay dividends on its common stock in excess of \$0.72 per share on an annual basis.

The Facility includes a prepayment penalty equal to one-half of one percent (1/2%) of the original maximum loan limit (\$60.4 million) if the Company prepays the entire Facility or terminates the credit agreement on or before January 1, 2011.

The Facility includes a financial covenant which requires the Company to maintain a minimum debt service ratio of 1.0 to 1.0 as measured by the previous twelve month period then ended. The Company was in compliance with this covenant at June 2010.

The amount available for use on the Facility at any given time is subject to a number of factors including eligible accounts receivable and inventory balances that fluctuate day-to-day based on our collateral and loan limits as defined in the Facility agreement. The Company's calculated credit limit of the Facility at June 30 was \$54.5 million of which \$28.5 million was outstanding leaving \$26.0 million available.

At June 2010, the revolving portion of the Company's Facility balance bore interest based on the bank's prime rate and various short-term LIBOR rate elections made by the Company. The average interest rate was 3.06% at June 2010. At June 2010, the Company had \$6.4 million in long-term debt outstanding. Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of this long-term debt approximated its carrying value at June 2010.

**Cross Default and Co-Terminus Provisions**

The Company's owned real estate in Bismarck, ND, Quincy, IL, and Rapid City, SD, and certain warehouse equipment in the Rapid City, SD warehouse is financed through term loans with Marshall and Ilsley Bank ( M&I ), which is also a participant lender on the Company's revolving line of credit. The M&I loans contain cross default provisions which cause all loans with M&I to be considered in default if any one of the loans where M&I is a lender, including the revolving credit facility, is in default. There were no such cross defaults at June 2010. In addition, the M&I loans contain co-terminus provisions which require all loans with M&I to be paid in full if any of the loans are paid in full prior to the end of their specified terms.

**Other**

AMCON has issued a letter of credit for \$0.5 million to its workers' compensation insurance carrier as part of its self-insured loss control program.

**Off-Balance Sheet Arrangements**

The Company does not have any off-balance sheet arrangements.

**Table of Contents****9. EQUITY-BASED INCENTIVE AWARDS****Omnibus Plan**

The Company has an Omnibus Incentive Plan ( the Omnibus Plan ) which provides for equity incentives to employees. The Omnibus Plan was designed with the intent of encouraging employees to acquire a vested interest in the growth and performance of the Company. The Omnibus Plan permits the issuance of up to 150,000 shares of the Company's common stock in the form of stock options, restricted stock awards, restricted stock units, performance share awards as well as awards such as stock appreciation rights, performance units, performance shares, bonus shares, and dividend share awards payable in the form of common stock or cash.

**Stock Options**

In April 2010, the Compensation Committee of the Board of Directors awarded various employees of the Company incentive stock options to purchase 6,000 shares of the Company's common stock. These awards vest in equal installments over a five year service period and have an exercise price of \$51.50 per share.

The Company has estimated that the fair value of the incentive stock option awards was approximately \$0.1 million using the Black-Scholes option pricing model. This amount will be amortized to compensation expense on a straight-line basis over the five year service period. The following assumptions were used in connection with the Black-Scholes option pricing calculation:

|                         | <b>Stock Option<br/>Pricing<br/>Assumptions</b> |
|-------------------------|-------------------------------------------------|
| Risk-free interest rate | 3.04%                                           |
| Dividend yield          | 1.30%                                           |
| Expected volatility     | 49.3%                                           |
| Expected life in years  | 7                                               |

The stock options issued by the Company expire ten years from the grant date and include graded vesting schedules up to five years in length. Stock options issued and outstanding to management employees at June 2010 are summarized as follows:

| <b>Date</b> | <b>Exercise<br/>Price</b> | <b>Number of<br/>Options</b> | <b>Number</b>      |
|-------------|---------------------------|------------------------------|--------------------|
|             |                           | <b>Outstanding</b>           | <b>Exercisable</b> |
| Fiscal 2003 | \$ 28.80                  | 251                          | 251                |
| Fiscal 2007 | \$ 18.00                  | 25,000                       | 25,000             |
| Fiscal 2010 | \$ 51.50                  | 6,000                        |                    |
|             |                           | 31,251                       | 25,251             |

Stock options issued and outstanding to the Company's outside directors at June 2010 are summarized as follows:

| <b>Date</b> | <b>Exercise<br/>Price</b> | <b>Number of<br/>Options</b> | <b>Number</b>      |
|-------------|---------------------------|------------------------------|--------------------|
|             |                           | <b>Outstanding</b>           | <b>Exercisable</b> |
| Fiscal 2002 | \$ 26.94                  | 834                          | 834                |

The following summarizes all stock options issued and outstanding at June 2010:

| <b>Remaining</b> | <b>Exercisable</b> |
|------------------|--------------------|
|------------------|--------------------|



| Exercise     | Number      | Weighted-Average | Weighted-Average | Number   | Weighted-Average |                |
|--------------|-------------|------------------|------------------|----------|------------------|----------------|
|              | Outstanding | Contractual      | Life             |          | Exercisable      | Exercise Price |
| 2002 Options | \$ 26.94    | 834              | 2.12 years       | \$ 26.94 | 834              | \$ 26.94       |
| 2003 Options | \$ 28.80    | 251              | 2.30 years       | \$ 28.80 | 251              | \$ 28.80       |
| 2007 Options | \$ 18.00    | 25,000           | 6.45 years       | \$ 18.00 | 25,000           | \$ 18.00       |
| 2010 Options | \$ 51.50    | 6,000            | 9.83 years       | \$ 51.50 |                  |                |
|              |             | 32,085           |                  | \$ 24.58 | 26,085           | \$ 18.39       |

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The following is a summary of the activity of the stock options for the nine months ended June 2010:

|                               | <b>Number<br/>of<br/>Shares</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> |
|-------------------------------|---------------------------------|----------------------------------------------------|
| Outstanding at September 2009 | 30,117                          | \$ 20.16                                           |
| Granted                       | 6,000                           | \$ 51.50                                           |
| Exercised                     | (4,032)                         | \$ 31.56                                           |
| Forfeited/Expired             |                                 |                                                    |
| Outstanding at June 2010      | 32,085                          | \$ 24.58                                           |

Net income before income taxes included compensation expense related to stock options of approximately \$0.01 million and \$0.1 million for the three and nine months ended June 2010, respectively, and \$0.03 million and \$0.1 million for the three and nine months ended June 2009, respectively. At June 2010, total unamortized compensation expense related to stock options was approximately \$0.1 million. This unamortized compensation expense is expected to be amortized over approximately the next 58 months.

**Restricted Stock**

Pursuant to the Omnibus Plan, the Compensation Committee of the Board of Directors has authorized and approved the restricted stock awards as summarized below:

|                                                     | <b>Restricted Stock<br/>/1/</b> | <b>Restricted Stock<br/>/2/</b> |
|-----------------------------------------------------|---------------------------------|---------------------------------|
| Date of award:                                      | December 6, 2007                | January 29, 2008                |
| Number of shares:                                   | 24,000                          | 7,500                           |
| Service period:                                     | 34 months                       | 36 months                       |
| Estimated fair value of award at grant date /3/:    | \$ 963,000                      | \$ 229,000                      |
| Intrinsic value of awards outstanding at June 2010: | \$ 454,000                      | \$ 142,000                      |

/1/ The remaining 8,000 shares will vest on October 16, 2010.

/2/ The remaining 2,500 shares will vest January 29, 2011.

/3/ Amount is net of estimated forfeitures.

There is no direct cost to the recipients of the restricted stock awards, except for any applicable taxes. The recipients of restricted stock are entitled to full voting rights and the customary adjustments in the event of stock splits, stock dividends, and certain other distributions on the Company's common stock. All cash dividends and/or distributions payable to restricted stock recipients will be held in escrow until all the conditions of vesting have been met.

The Company recognizes compensation expense related to restricted stock awards on a straight-line basis over the requisite service period. Accordingly, net income before income taxes included compensation expense of \$0.1 million for the three months ended June 2010 and June 2009, and \$0.3 million for the nine months ended June 2010 and June 2009. Total unamortized compensation expense related to restricted stock awards at June 2010 was approximately \$0.1 million. This unamortized compensation expense is expected to be amortized over approximately the next four months (the expected weighted-average period).

The following summarizes restricted stock activity under the Omnibus Plan for the nine months ended June 2010:

|                                              | <b>Number<br/>of<br/>Shares</b> | <b>Weighted Average<br/>Grant Date<br/>Fair Value</b> |
|----------------------------------------------|---------------------------------|-------------------------------------------------------|
| Nonvested restricted stock at September 2009 | 21,000                          | \$ 40.16                                              |
| Granted                                      |                                 |                                                       |
| Vested                                       | (10,500)                        | \$ 40.16                                              |
| Expired                                      |                                 |                                                       |
| Nonvested restricted stock at June 2010      | 10,500                          | \$ 40.16                                              |

**Table of Contents****10. BUSINESS SEGMENTS**

AMCON has two reportable business segments: the wholesale distribution of consumer products and the retail sale of health and natural food products. The retail health food stores operations are aggregated to comprise the Retail Segment because such operations have similar economic characteristics, as well as similar characteristics with respect to the nature of products sold, the type and class of customers for the health food products and the methods used to sell the products. Included in the Other column is intercompany eliminations and charges incurred by our holding company. The segments are evaluated on revenues, gross margins, operating income (loss), and income before taxes.

|                                                       | <b>Wholesale<br/>Segment</b> | <b>Retail<br/>Segment</b> | <b>Other /1/</b> | <b>Consolidated</b> |
|-------------------------------------------------------|------------------------------|---------------------------|------------------|---------------------|
| <b>THREE MONTHS ENDED JUNE 2010:</b>                  |                              |                           |                  |                     |
| External revenue:                                     |                              |                           |                  |                     |
| Cigarettes                                            | \$ 192,819,138               | \$                        | \$               | \$ 192,819,138      |
| Confectionery                                         | 18,276,797                   |                           |                  | 18,276,797          |
| Health food                                           |                              | 9,220,081                 |                  | 9,220,081           |
| Tobacco, food service & other                         | 46,746,424                   |                           |                  | 46,746,424          |
| <b>Total external revenue</b>                         | <b>257,842,359</b>           | <b>9,220,081</b>          |                  | <b>267,062,440</b>  |
| Depreciation                                          | 270,627                      | 92,763                    | 936              | 364,326             |
| Amortization                                          | 76,140                       |                           |                  | 76,140              |
| Operating income (loss)                               | 4,820,946                    | 911,760                   | (1,113,891)      | 4,618,815           |
| Interest expense                                      | 119,356                      | 111,322                   | 140,195          | 370,873             |
| Income (loss) from continuing operations before taxes | 4,708,303                    | 811,190                   | (1,238,793)      | 4,280,700           |
| Total assets                                          | 88,755,030                   | 12,238,486                | 1,019,791        | 102,013,307         |
| Capital expenditures                                  | 136,591                      | 184,392                   |                  | 320,983             |
| <b>THREE MONTHS ENDED JUNE 2009:</b>                  |                              |                           |                  |                     |
| External revenue:                                     |                              |                           |                  |                     |
| Cigarettes                                            | \$ 175,859,941               | \$                        | \$               | \$ 175,859,941      |
| Confectionery                                         | 17,248,948                   |                           |                  | 17,248,948          |
| Health food                                           |                              | 9,059,300                 |                  | 9,059,300           |
| Tobacco, food service & other                         | 40,649,738                   |                           |                  | 40,649,738          |
| <b>Total external revenue</b>                         | <b>233,758,627</b>           | <b>9,059,300</b>          |                  | <b>242,817,927</b>  |
| Depreciation                                          | 223,275                      | 49,228                    | 1,147            | 273,650             |
| Amortization                                          |                              |                           |                  |                     |
| Operating income (loss)                               | 4,661,114                    | 888,437                   | (1,559,355)      | 3,990,196           |
| Interest expense                                      | 132,192                      | 133,692                   | 102,164          | 368,048             |
| Income (loss) from continuing operations before taxes | 4,536,746                    | 765,176                   | (1,636,174)      | 3,665,748           |
| Total assets                                          | 77,693,924                   | 11,517,275                | 989,112          | 90,200,311          |
| Capital expenditures                                  | 223,251                      | 63,569                    |                  | 286,820             |

/1/ Includes intercompany eliminations, charges incurred by the holding

company, and  
the assets of  
discontinued  
operations.

**Table of Contents****10. BUSINESS SEGMENTS (continued)**

|                                                          | <b>Wholesale<br/>Segment</b> | <b>Retail<br/>Segment</b> | <b>Other /1/</b> | <b>Consolidated</b> |
|----------------------------------------------------------|------------------------------|---------------------------|------------------|---------------------|
| <b>NINE MONTHS ENDED JUNE 2010:</b>                      |                              |                           |                  |                     |
| External revenue:                                        |                              |                           |                  |                     |
| Cigarettes                                               | \$ 537,317,934               | \$                        | \$               | \$ 537,317,934      |
| Confectionery                                            | 48,472,133                   |                           |                  | 48,472,133          |
| Health food                                              |                              | 27,639,474                |                  | 27,639,474          |
| Tobacco, food service & other                            | 128,073,066                  |                           |                  | 128,073,066         |
| <b>Total external revenue</b>                            | <b>713,863,133</b>           | <b>27,639,474</b>         |                  | <b>741,502,607</b>  |
| Depreciation                                             | 808,338                      | 231,618                   | 3,230            | 1,043,186           |
| Amortization                                             | 200,121                      |                           |                  | 200,121             |
| Operating income (loss)                                  | 12,354,842                   | 2,922,249                 | (4,437,471)      | 10,839,620          |
| Interest expense                                         | 366,547                      | 351,612                   | 426,384          | 1,144,543           |
| Income (loss) from continuing operations<br>before taxes | 12,010,720                   | 2,601,688                 | (4,848,147)      | 9,764,261           |
| Total assets                                             | 88,755,030                   | 12,238,486                | 1,019,791        | 102,013,307         |
| Capital expenditures                                     | 740,175                      | 683,737                   |                  | 1,423,912           |
| <b>NINE MONTHS ENDED JUNE 2009:</b>                      |                              |                           |                  |                     |
| External revenue:                                        |                              |                           |                  |                     |
| Cigarettes                                               | \$ 464,141,853               | \$                        | \$               | \$ 464,141,853      |
| Confectionery                                            | 47,377,945                   |                           |                  | 47,377,945          |
| Health food                                              |                              | 27,604,903                |                  | 27,604,903          |
| Tobacco, food service & other                            | 116,512,835                  |                           |                  | 116,512,835         |
| <b>Total external revenue</b>                            | <b>628,032,633</b>           | <b>27,604,903</b>         |                  | <b>655,637,536</b>  |
| Depreciation                                             | 716,427                      | 165,105                   | 3,440            | 884,972             |
| Amortization                                             |                              |                           |                  |                     |
| Operating income (loss)                                  | 12,130,097                   | 2,552,606                 | (4,036,869)      | 10,645,834          |
| Interest expense                                         | 391,236                      | 443,550                   | 431,048          | 1,265,834           |
| Income (loss) from continuing operations<br>before taxes | 11,766,639                   | 2,140,075                 | (4,442,571)      | 9,464,143           |
| Total assets                                             | 77,693,924                   | 11,517,275                | 989,112          | 90,200,311          |
| Capital expenditures                                     | 526,281                      | 257,940                   |                  | 784,221             |

/1/ Includes intercompany eliminations, charges incurred by the holding company, and the assets of discontinued operations.



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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q, including the Management's Discussion and Analysis and other sections, contains forward-looking statements that are subject to risks and uncertainties and which reflect management's current beliefs and estimates of future economic circumstances, industry conditions, company performance and financial results. Forward-looking statements include information concerning the possible or assumed future results of operations of the Company and those statements preceded by, followed by or that include the words "future," "position," "anticipate(s)," "expect," "believe(s)," "see," "plan," "further improve," "outlook," "should" or similar expressions. In these forward-looking statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are not guarantees of future performance or results. They involve risks, uncertainties and assumptions. You should understand that the following important factors, in addition to those discussed elsewhere in this document, could affect the future results of the Company and could cause those results to differ materially from those expressed in our forward-looking statements:

- increases in state and federal excise taxes on cigarette and tobacco products
- regulation of cigarette and tobacco products by the U.S. Food and Drug Administration ( "FDA" ), in addition to existing state and federal regulations by other agencies,
- increases in manufacturer prices,
- increases in inventory carrying costs and customer credit risk,

- changes in promotional and incentive programs offered by manufacturers,

- decreased availability of capital resources,

- demand for the Company's products, particularly cigarette and tobacco products,

- new business ventures or acquisitions,

- domestic regulatory and legislative risks,

- competition,

- poor weather conditions,

- increases in fuel prices,

- consolidation trends within the convenience store industry,

- other risks over which the Company has little or no control, and

- any other factors not identified herein.

Changes in these factors could result in significantly different results. Consequently, future results may differ from management's expectations. Moreover, past financial performance should not be considered a reliable indicator of future performance. Any forward-looking statement contained herein is made as of the date of this document. Except as required by law, the Company undertakes no obligation to publicly update or correct any of these forward-looking statements in the future to reflect changed assumptions, the occurrence of material events or changes in future operating results, financial conditions or business over time.





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**CRITICAL ACCOUNTING ESTIMATES**

Certain accounting estimates used in the preparation of the Company's financial statements require us to make judgments and estimates and the financial results we report may vary depending on how we make these judgments and estimates. Our critical accounting estimates are set forth in our Form 10-K for the fiscal year ended September 30, 2009, as filed with the Securities and Exchange Commission. There have been no significant changes with respect to these policies during the fiscal quarter ended June 2010.

**THIRD FISCAL QUARTER 2010 (Q3 2010)**

The following discussion and analysis includes the Company's results of operations from continuing operations for the three months and nine months ended June 2010 and 2009. Continuing operations are comprised of our Wholesale Segment and our Retail Segment. A separate discussion of discontinued operations has been presented following our analysis of continuing operations.

**Wholesale Segment**

Our Wholesale Segment serves approximately 4,200 retail outlets including convenience stores, grocery stores, liquor stores, drug stores, and tobacco shops. In October 2009, Convenience Store News ranked our Wholesale Segment as the eighth (8th) largest convenience store distributor in the United States based on annual sales.

Our Wholesale Segment distributes approximately 14,000 different consumer products, including cigarettes and tobacco products, candy and other confectionery, beverages, groceries, paper products, health and beauty care products, frozen and chilled products and institutional food service products.

**Retail Segment**

The Company's Retail Segment, which is operated as Chamberlin's Market & Café and Akin's Natural Foods Market, carry over 30,000 different national and regionally branded and private label products. These products include high-quality natural, organic, and specialty foods consisting of produce, baked goods, frozen foods, nutritional supplements, personal care items, and general merchandise. Chamberlin's, which was first established in 1935, operates six stores in and around Orlando, Florida. Akin's, which was also established in 1935, has a total of eight locations in Oklahoma, Nebraska, Missouri, and Kansas.

**Business Update Wholesale Segment**

The wholesale distribution industry is mature and intensely competitive. The revenue streams in this segment have historically been very dependent on the sale of cigarettes. Legislative actions such as excise tax increases, smoking bans, and diminishing social acceptance, however, have decreased the demand for cigarettes. Most recently, the manufacturing, distribution, marketing, and sale of cigarette and tobacco products was placed under the authority of the FDA. To date, the regulatory actions undertaken by the FDA have been primarily targeted at cigarette manufacturers and retailers. However, future regulatory actions by the FDA could further depress consumer demand for this product.

In the area of merchandising, industry research suggests that the convenience store industry is moving towards fresh and healthier foods offerings. These products tend to earn higher margins than the cigarette and tobacco categories we distribute and can enhance customer loyalty at the retail level. Accordingly, we are focused on expanding our products, sales, and training services offered to our customers in this area.

The long-term implications of the above considerations on the industry are significant. The combined impact of declining cigarette revenues as well as the overall availability of credit and access to capital will hinder smaller distributors and likely result in substantial industry consolidation. As one of the nation's largest wholesale distributors, we believe the Company is well-positioned to capitalize on these trends and broaden our strategic footprint.

**Table of Contents****Business Update Retail Segment**

The health food retailing industry is highly competitive. Our competitors include local, regional, and national supermarkets as well as specialty natural foods stores. While natural food is one of the fastest growing categories in food retailing today, macro-economic conditions have negatively impacted sales growth industry-wide. We also face increased competition from other natural food chains looking to grow their market share.

Despite a challenging operating environment, we believe our health food stores continue to offer a unique value proposition. One of our core operating strategies is to carry product lines not readily found in other stores, coupled with highly trained sales associates who are passionate about the products we carry. These core operating principles have allowed us to develop a loyal customer following.

As the economy and consumer confidence improves, we believe consumer preferences towards more health conscious lifestyles combined with aging demographic trends will continue to make this a growth category for our Company and an attractive portion of our consolidated operations.

**Business Update General**

A combination of economic and regulatory factors and the potential of higher fuel prices could adversely affect our sales, gross margins, and operating profits into the foreseeable future. Additionally, the Company is evaluating the impact that the new healthcare legislation might have on our business. Currently, however, the ultimate impact of this new legislation is uncertain.

While the above considerations present challenges industry-wide, we believe that our conservative strategy of cost containment, aggressively targeting new business, and maintaining maximum liquidity, will position us well to capture market share, execute strategic acquisitions, open new retail stores, and ultimately create shareholder value.

**RESULTS OF OPERATIONS**

|                                                       | <b>For the three months ended June</b> |                |                        | <b>%<br/>Change</b> |
|-------------------------------------------------------|----------------------------------------|----------------|------------------------|---------------------|
|                                                       | <b>2010</b>                            | <b>2009</b>    | <b>Incr<br/>(Decr)</b> |                     |
| <b>CONSOLIDATED:</b>                                  |                                        |                |                        |                     |
| Sales /1/                                             | \$ 267,062,440                         | \$ 242,817,927 | \$ 24,244,513          | 10.0                |
| Cost of sales                                         | 247,932,676                            | 225,753,469    | 22,179,207             | 9.8                 |
| Gross profit                                          | 19,129,764                             | 17,064,458     | 2,065,306              | 12.1                |
| Gross profit percentage                               | 7.2%                                   | 7.0%           |                        |                     |
| Operating expense                                     | 14,510,949                             | 13,074,262     | 1,436,687              | 11.0                |
| Operating income                                      | 4,618,815                              | 3,990,196      | 628,619                | 15.8                |
| Interest expense                                      | 370,873                                | 368,048        | 2,825                  | 0.8                 |
| Income tax expense                                    | 1,532,000                              | 1,411,000      | 121,000                | 8.6                 |
| Income from continuing operations before income taxes | 2,748,700                              | 2,254,748      | 493,952                | 21.9                |
| <b>BUSINESS SEGMENTS:</b>                             |                                        |                |                        |                     |
| <b>Wholesale</b>                                      |                                        |                |                        |                     |
| Sales                                                 | \$ 257,842,359                         | \$ 233,758,627 | \$ 24,083,732          | 10.3                |
| Gross profit                                          | 15,054,498                             | 13,311,241     | 1,743,257              | 13.1                |
| Gross profit percentage                               | 5.8%                                   | 5.7%           |                        |                     |
| <b>Retail</b>                                         |                                        |                |                        |                     |
| Sales                                                 | \$ 9,220,081                           | \$ 9,059,300   | \$ 160,781             | 1.8                 |
| Gross profit                                          | 4,075,266                              | 3,753,217      | 322,049                | 8.6                 |
| Gross profit percentage                               | 44.2%                                  | 41.4%          |                        |                     |

/1/ Sales are reported net of costs associated with incentives provided to retailers. These incentives totaled \$3.9 million and \$3.7 in Q3 2010 and Q3 2009 respectively.

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**SALES:**

Changes in sales are driven by two primary components:

- (i) changes to selling prices, which are largely controlled by our product suppliers, and excise taxes imposed on cigarettes and tobacco products by various states; and
- (ii) changes in the volume of products sold to our customers, either due to a change in purchasing patterns resulting from consumer preferences or the fluctuation in the comparable number of business days in our reporting period.

**SALES Q3 2010 vs. Q3 2009**

Sales in our Wholesale Segment increased \$24.1 million during Q3 2010 as compared to Q3 2009. Significant items impacting sales during Q3 2010 included the following:

\$16.1 million increase related to our expansion into Northwest Arkansas with the Discount Distributors acquisition.

\$4.9 million increase due to cigarette price increases implemented by manufacturers.

\$0.7 million decrease, primarily related to a reduction in cigarette cartons sold.

\$3.8 million increase in our tobacco, beverage, snacks, candy, grocery, health & beauty products, automotive, food service, and store supplies categories ( Other Products )

Sales in our Retail Segment increased approximately \$0.2 million in Q3 2010 as compared to Q3 2009. This increase was primarily related to our new retail store that opened in Tulsa, Oklahoma in late Q2 2010.

**GROSS PROFIT Q3 2010 vs. Q3 2009**

Our gross profit does not include fulfillment costs and costs related to the distribution network which are included in selling, general and administrative costs, and may not be comparable to those of other entities. Some entities may classify such costs as a component of cost of sales. Cost of sales, a component used in determining gross profit, for the wholesale and retail segments includes the cost of products purchased from manufacturers, less incentives we receive which are netted against such costs.

Gross profit in our Wholesale Segment increased \$1.7 million in Q3 2010 as compared to Q3 2009. During Q3 2009, our gross profit benefited \$0.6 million due to price increases implemented by cigarette and tobacco manufacturers. On a year-over-year basis, the decrease in this gross profit from the prior year period was offset by \$0.7 million due to the gross profit generated by the Discount Distributors acquisition, \$0.6 million due to improved gross margins in our cigarette and tobacco categories, and \$1.0 million due to changes in sales volume and promotional allowances.

Gross profit for the Retail Segment increased \$0.3 million in Q3 2010 as compared to Q3 2009. This increase was primarily related to our new store in Tulsa, Oklahoma, lower throw-out costs, and improved gross margins.

**OPERATING EXPENSE Q3 2010 vs. Q3 2009**

Operating expense includes selling, general and administrative expenses and depreciation and amortization. Selling, general, and administrative expenses include costs related to our sales, warehouse, delivery and administrative departments for all segments. Specifically, purchasing and receiving costs, warehousing costs and costs of picking and loading customer orders are all classified as selling, general and administrative expenses. Our most significant expenses relate to employee costs, facility and equipment leases, transportation costs, fuel costs, insurance, and professional fees.

Operating expenses increased approximately \$1.4 million in Q3 2010 as compared to Q3 2009. Of this increase, approximately \$0.6 million was attributable to operating costs incurred servicing our new business in Northwest Arkansas, \$0.4 million related to an increase in bad debt expense, \$0.2 million related to higher depreciation and amortization expense, \$0.2 million related to higher insurance and fuel costs, and \$0.3 million primarily related to our new Retail Segment store in Tulsa, Oklahoma. These increases were partially offset by a \$0.3 million decrease in compensation expense.



**Table of Contents****RESULTS OF OPERATIONS NINE MONTHS ENDED JUNE 2010:**

|                                                          | <b>For the nine months<br/>ended June</b> |                |                        |                     |
|----------------------------------------------------------|-------------------------------------------|----------------|------------------------|---------------------|
|                                                          | <b>2010</b>                               | <b>2009</b>    | <b>Incr<br/>(Decr)</b> | <b>%<br/>Change</b> |
| <b>CONSOLIDATED:</b>                                     |                                           |                |                        |                     |
| Sales                                                    | \$ 741,502,607                            | \$ 655,637,536 | \$ 85,865,071          | 13.1                |
| Cost of sales                                            | 688,204,656                               | 605,481,395    | 82,723,261             | 13.7                |
| Gross profit                                             | 53,297,951                                | 50,156,141     | 3,141,810              | 6.3                 |
| Gross profit percentage                                  | 7.2%                                      | 7.6%           |                        |                     |
| Operating expenses                                       | 42,458,331                                | 39,510,307     | 2,948,024              | 7.5                 |
| Operating income                                         | 10,839,620                                | 10,645,834     | 193,786                | 1.8                 |
| Interest expense                                         | 1,144,543                                 | 1,265,834      | (121,291)              | (9.6)               |
| Income tax expense                                       | 3,495,000                                 | 3,614,000      | (119,000)              | (3.3)               |
| Income from continuing operations before<br>income taxes | 6,269,261                                 | 5,850,143      | 419,118                | 7.2                 |
| <b>BUSINESS SEGMENTS:</b>                                |                                           |                |                        |                     |
| <b>Wholesale</b>                                         |                                           |                |                        |                     |
| Sales                                                    | \$ 713,863,133                            | \$ 628,032,633 | \$ 85,830,500          | 13.7                |
| Gross profit                                             | 41,250,675                                | 38,749,866     | 2,500,809              | 6.5                 |
| Gross profit percentage                                  | 5.8%                                      | 6.2%           |                        |                     |
| <b>Retail</b>                                            |                                           |                |                        |                     |
| Sales                                                    | \$ 27,639,474                             | \$ 27,604,903  | \$ 34,571              | 0.1                 |
| Gross profit                                             | 12,047,276                                | 11,406,275     | 641,001                | 5.6                 |
| Gross profit percentage                                  | 43.6%                                     | 41.3%          |                        |                     |

/1/ Sales are reported net of costs associated with incentives provided to retailers. These incentives totaled \$11.5 million for the nine months ended June 2010 and \$11.6 million for the nine months ended June 2009.

**SALES Nine Months Ended June 2010**

Sales in our Wholesale Segment increased \$85.8 million for the nine months ended June 2010 as compared to the same prior year period. Significant items impacting our Wholesale Segment sales for the nine months ended

June 2010 included:

\$38.3 million increase related to our expansion into Northwest Arkansas with the acquisition of Discount Distributors.

\$58.1 million increase due to cigarette price increases implemented by manufacturers.

\$15.6 million decrease, primarily related to a reduction in cigarette cartons sold.

\$5.0 million increase in Other Product sales.

Sales in our Retail Segment for the nine months ended June 2010 were even as compared to the same prior year period. Sales for the nine months ended June 2010 benefited approximately \$0.2 million in connection with our new Tulsa, Oklahoma retail store. This increase was partially offset by lower sales in our Florida retail stores which have been impacted by depressed economic conditions in that region, as well as increased competition from other natural food chains.



**Table of Contents****GROSS PROFIT Nine Months Ended June 2010**

Gross profit in our Wholesale Segment increased \$2.5 million for the nine month period ended June 2010 as compared to the same period in the prior year. During the comparable prior year period, our gross profit included a benefit of \$3.2 million due to price increases implemented by cigarette and tobacco manufacturers. On a year-over-year basis, the decrease in this gross profit from the prior year period was offset by \$1.8 million due to the gross profit generated by Discount Distributors, and \$2.5 million due to improved gross margins in our cigarette and tobacco categories, and \$1.4 million related to changes in promotional allowances and overall sales volume.

Gross profit for the Retail Segment increased \$0.6 million for the nine month period ended June 2010. Of this increase, approximately \$0.1 million related to our new Retail store in Tulsa, Oklahoma and \$0.5 million related to lower throw-out costs and improved gross margins.

**OPERATING EXPENSE Nine Months Ended June 2010**

Operating expenses for the nine month period ended June 2010 increased approximately \$2.9 million as compared to the same prior year period. Of this increase, approximately \$1.3 million is attributable to operating costs incurred servicing our new business in Northwest Arkansas, \$0.2 million related to an increase in our bad debt expense, \$0.4 million related to higher depreciation and amortization expense, \$0.5 million related higher compensation expense, \$0.2 million related to higher fuel costs, and \$0.3 million primarily related to our new Retail Segment store in Tulsa, Oklahoma.

**INTEREST EXPENSE Nine Months Ended June 2010**

Interest expense for nine months ended June 2010 decreased approximately \$0.1 million as compared to the same prior year period. This change was principally related to lower interest rates and average borrowings on the Company's credit facility. For the nine months ended June 2010, average interest rates and borrowings on the Company's revolving credit facility were 0.46% and \$0.6 million lower, respectively, as compared to the same prior year period.

**DISCONTINUED OPERATIONS**

Income from discontinued operations in the prior year periods was primarily related to a gain on the disposal of assets held by Trinity Springs, Inc. (TSI), a wholly owned subsidiary of the Company, and a related debt settlement.

A summary of discontinued operations is as follows:

|                                            | Three months ended |           | Nine months ended |           |
|--------------------------------------------|--------------------|-----------|-------------------|-----------|
|                                            | June               |           | June              |           |
|                                            | 2010               | 2009      | 2010              | 2009      |
| Operating income (loss)                    | \$                 | \$ 20,105 | \$                | (65,458)  |
| Interest expense                           |                    |           |                   | (230,012) |
| Gain on asset disposal and debt settlement |                    | 7,381,264 |                   | 7,381,264 |
| Income tax expense                         |                    | 2,722,000 |                   | 2,606,000 |
| Income from discontinued operations        |                    | 4,679,369 |                   | 4,479,894 |

**LIQUIDITY AND CAPITAL RESOURCES****Overview**

Operating Activities. The Company requires cash to pay operating expenses, purchase inventory, and make capital investments. In general, the Company finances its cash flow requirements with cash generated from operating activities and credit facility borrowings. For the nine months ended June 2010, the Company used cash of approximately \$0.2 million from operating activities. Significant items impacting cash used were higher accounts receivable, inventory, and prepaid and other current assets balances. These items were partially offset by an increase in accounts payable.

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Our variability in cash flows from operating activities is dependent on the timing of inventory purchases and seasonal fluctuations. For example, periodically we have inventory buy-in opportunities which offer more favorable pricing terms. As a result, we may have to hold inventory for a period longer than the payment terms. This generates a cash outflow from operating activities which we expect to reverse in later periods. Additionally, during the warm weather months, which is our peak time of operations, we generally carry higher amounts of inventory to ensure high fill rates and customer satisfaction.

**Investing Activities.** The Company used approximately \$4.5 million of cash during the nine months ended June 2010 for investing activities, primarily related to capital expenditures for property and equipment and the acquisition of Discount Distributors.

**Financing Activities.** The Company generated cash of \$4.7 million for financing activities for the nine months ended June 2010. Of this amount, \$5.6 million related to net borrowings on the Company's credit facility which was used to purchase inventory and fund the Company's acquisition of Discount Distributors, and \$0.3 million related to the exercise of stock options. Offsetting these items was \$0.7 million of payments on long-term debt, and \$0.5 million related to dividends on the Company's common and preferred stock.

**Cash on Hand/Working Capital.** At June 2010, the Company had cash on hand of \$0.4 million and working capital (current assets less current liabilities) of \$46.4 million. This compares to cash on hand of \$0.3 million and working capital of \$35.7 million at September 2009.

**CREDIT AGREEMENT**

The Company has a credit agreement (the Facility) with Bank of America, which includes the following significant terms:

A January 1, 2012 maturity date and a \$55.0 million revolving credit limit.

The Facility bears interest at either the bank's prime rate or at LIBOR plus 250 basis points, at the election of the Company.

The Facility provides for an additional \$5.0 million of credit available for certain inventory purchases. These advances bear interest at the bank's prime rate plus one-quarter of one-percent (1/4%) per annum and are payable within 45 days of each advance.

Lending limits that are subject to accounts receivable and inventory limitations, and an unused commitment fee equal to one-quarter of one percent (1/4%) per annum on the difference between the maximum loan limit and average monthly borrowings.

An unused commitment fee equal to one-quarter of one percent (1/4%) per annum on the difference between the maximum loan limit and average monthly borrowings.

Secured by collateral including all of the Company's equipment, intangibles, inventories, and accounts receivable. Provides that the Company may not pay dividends on its common stock in excess of \$0.72 per share on an annual basis.

The Facility includes a prepayment penalty equal to one-half of one percent (1/2%) of the original maximum loan limit (\$60.4 million) if the Company prepays the entire Facility or terminates the credit agreement on or before January 1, 2011.

The Facility includes a financial covenant which requires the Company to maintain a minimum debt service ratio of 1.0 to 1.0 as measured by the previous twelve month period then ended. The Company was in compliance with this covenant at June 2010.

The amount available for use on the Facility at any given time is subject to a number of factors including eligible accounts receivable and inventory balances that fluctuate day-to-day. Based on our collateral and loan limits as defined in the Facility agreement, the calculated credit limit of the Facility at June 2010 was \$54.5 million, of which \$28.5 million was outstanding, leaving \$26.0 million available.

At June 2010, the revolving portion of the Company's Facility balance bore interest based on the bank's prime rate and various short-term LIBOR rate elections made by the Company. The average interest rate was 3.06% at June 2010.

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At June 2010, the Company had \$6.4 million in long-term debt outstanding. Based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair value of this long-term debt approximated its carrying value at June 2010.

During the nine months ended June 2010, our peak borrowings under the Facility were \$39.6 million and our average borrowings and average availability were \$31.2 and \$20.0 million, respectively. Our availability to borrow under the Facility generally decreases as inventory and accounts receivable levels increase because of the borrowing limitations that are placed on collateralized assets.

**Cross Default and Co-Terminus Provisions**

The Company's owned real estate in Bismarck, ND, Quincy, IL, and Rapid City, SD, and certain warehouse equipment in the Rapid City, SD warehouse is financed through term loans with Marshall and Ilsley Bank ( M&I ), which is also a participant lender on the Company's revolving line of credit. The M&I loans contain cross default provisions which cause all loans with M&I to be considered in default if any one of the loans where M&I is a lender, including the revolving credit facility, is in default. There were no such cross defaults at June 2010. In addition, the M&I loans contain co-terminus provisions which require all loans with M&I to be paid in full if any of the loans are paid in full prior to the end of their specified terms.

**Dividends Payments**

The Company paid cash dividends on its common shares of \$103,599 and \$57,040 for the three months ended June 2010 and June 2009, respectively, and \$310,358 and \$171,119 for the nine months ended June 2010 and June 2009, respectively.

The Company also paid cash dividends on its convertible preferred stock issuances (Series A, and Series B) of \$74,053 and \$74,053 for the three months ended June 2010 and June 2009, respectively, and \$222,159 and \$272,159 for the nine months ended June 2010 and June 2009, respectively.

**Contractual Obligations**

There have been no significant changes to the Company's contractual obligations as set forth in the Company's Form 10-K for the fiscal period ended September 30, 2009.

**OTHER**

The Company has issued a letter of credit for \$0.5 million to its workers' compensation insurance carrier as part of its self-insured loss control program.

**Off-Balance Sheet Arrangements**

The Company does not have any off-balance sheet arrangements.

**Liquidity Risk**

The Company's liquidity position is significantly influenced by its ability to maintain sufficient levels of working capital. For our Company and industry in general, customer credit risk and ongoing access to bank credit heavily influence liquidity positions.

The Company's credit facility with Bank of America expires January 1, 2012. We believe the Company continues to have a strong working relationship with Bank of America and has maintained compliance with all related debt covenants. However no assurances can be given that our credit facility with Bank of America will be renewed on acceptable terms if at all. The Company also aggressively monitors its customer credit risk to limit exposure in that area.

The Company does not currently hedge its exposure to interest rate risk or fuel costs. Accordingly, significant price movements in these areas can and do impact the Company's profitability.

The Company believes its liquidity position going forward will be adequate to sustain operations. However, a precipitous change in market conditions could materially impact the Company's future revenue stream as well as its ability to collect on customer accounts receivable balances and secure bank credit.

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**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Not applicable.

**Item 4. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in company reports filed or submitted under the Securities Exchange Act of 1934 (the Exchange Act ) is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in company reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our principal executive officer and principal financial and accounting officer, as appropriate to allow timely decisions regarding required disclosure.

As required by Rules 13a-15(e) and 15d-15(e) under the Exchange Act, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2010 was made under the supervision and with the participation of our senior management, including our principal executive officer and principal financial officer. Based upon that evaluation, our principal executive officer and principal financial and accounting officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

**Limitations on Effectiveness of Controls**

Our management, including our Chief Executive Officer and Chief Financial Officer, do not expect that our disclosure controls and procedures will prevent all errors and fraud. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. Further, the design of a control system must reflect the fact that there are resource constraints, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management s override of the control.

The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

**Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control that occurred during the fiscal quarter ended June 30, 2010, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

None.

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**Item 1A. Risk Factors**

There have been no material changes to the Company's risk factors as previously disclosed in Item 1A Risk Factors on Form 10-K for the fiscal year ended September 30, 2009.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Not applicable.

**Item 3. Defaults Upon Senior Securities**

Not Applicable

**Item 4. (Removed and Reserved)**

**Item 5. Other Information**

Not applicable.

**Item 6. Exhibits**

(a) Exhibits

- |      |                                                                                                                                                                          |
|------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.1 | Fourteenth Amendment to the Amended and Restated Loan and Security Agreement, dated July 19, 2010.                                                                       |
| 31.1 | Certification by Christopher H. Atayan, Chief Executive Officer and Chairman, furnished pursuant to section 302 of the Sarbanes-Oxley Act                                |
| 31.2 | Certification by Andrew C. Plummer, Vice President, Chief Financial Officer, and Principal Financial Officer furnished pursuant to section 302 of the Sarbanes-Oxley Act |
| 32.1 | Certification by Christopher H. Atayan, Chief Executive Officer and Chairman, furnished pursuant to section 906 of the Sarbanes-Oxley Act                                |
| 32.2 | Certification by Andrew C. Plummer, Vice President, Chief Financial Officer, and Principal Financial Officer furnished pursuant to section 906 of the Sarbanes-Oxley Act |

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMCON DISTRIBUTING COMPANY  
(registrant)

Date: July 16, 2010

/s/ Christopher H. Atayan  
Christopher H. Atayan,  
Chief Executive Officer and Chairman

Date: July 16, 2010

/s/ Andrew C. Plummer  
Andrew C. Plummer,  
Vice President, Chief Financial Officer,  
and Principal Financial Officer